

Citadel Clearing LLC

2018 Financial Statement

Citadel Clearing LLC

(A Delaware Limited Liability Company)
(SEC File Number 8-69521)

Statement of Financial Condition as of December 31, 2018 and Report of Independent Registered Public Accounting Firm

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

OMB APPROVAL
OMB Number: 3235-0123
Expires: August 31, 2020
Estimated average burden hours per response . . . 12.00

SEC FILE NUMBER
8-69521

REPORT FOR THE PERIOD BEGINNING 01/01/18 AND ENDING 12/31/18
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER: CITADEL CLEARING LLC

OFFICIAL USE ONLY
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

131 South Dearborn Street

(No. and Street)

Chicago

Illinois

60603

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Patricia Stasny

(312) 395-4366

(Area Code – Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers LLP

(Name – if individual, state last, first, middle name)

1 North Wacker Drive

Chicago

Illinois

60606

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

Affirmation

I, Patricia Stasny, affirm that, to the best of my knowledge and belief, the accompanying statement of financial condition pertaining to the firm of Citadel Clearing LLC (the "Company"), as of December 31, 2018, is true and correct. I further affirm that neither the Company, nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer.

By: Patricia A Stasny
Patricia Stasny, Global Controller of Citadel Enterprise Americas LLC

February 26, 2019

State of Illinois
County of Cook

This instrument was signed or acknowledged before me on February 26, 2019 by Patricia Stasny.

Barbara A. Horne
Barbara A. Horne, Notary Public



Table of Contents

	Page
Report of Independent Registered Public Accounting Firm	
Statement of Financial Condition	1
Notes to Statement of Financial Condition	2
Note 1. Organization	2
Note 2. Summary of Significant Accounting Policies.....	2
Note 3. New Accounting Pronouncement	3
Note 4. Income Taxes	3
Note 5. Collateralized Transactions	3
Note 6. Fair Value Disclosures.....	5
Note 7. Transactions with Related Parties	5
Note 8. Receivable from and Payable to Brokers, Dealers, and Clearing Organizations	6
Note 9. Risk Management.....	6
Note 10. Regulatory Requirements	6
Note 11. Subsequent Events.....	7



Report of Independent Registered Public Accounting Firm

To the Member of Citadel Clearing LLC

Opinion on the Financial Statement – Statement of Financial Condition

We have audited the accompanying statement of financial condition of Citadel Clearing LLC (the “Company”) as of December 31, 2018, including the related notes (collectively referred to as the “financial statement”). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The financial statement is the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of this financial statement in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 26, 2019

We have served as the Company’s auditor since 2015.

Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

ASSETS

	As of December 31, 2018
Assets:	
Cash	\$ 612,741
Cash segregated under federal regulation	28,100
Securities borrowed	25,613,898
Collateral held under securities loan agreements	13,666,454
Receivable from brokers, dealers, and clearing organizations	165,944
Other assets	16,624
Receivable from affiliated customers	5,988
Total assets	\$ 40,109,749

LIABILITIES AND MEMBER'S CAPITAL

Liabilities:	
Securities loaned	\$ 30,324,634
Securities sold under agreements to repurchase	9,250,269
Payable to brokers, dealers, and clearing organizations	10,257
Clearance and regulatory fees payable	4,314
Other liabilities	1,469
Payable to affiliates	440
Total liabilities	39,591,383
Member's capital	518,366
Total liabilities and member's capital	\$ 40,109,749

See notes to statement of financial condition.

Notes to Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

NOTE 1

Organization

Citadel Clearing LLC (the "Company"), a Delaware limited liability company, is registered with the U.S. Securities and Exchange Commission ("SEC") as a broker and dealer, and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA") and Securities Investor Protection Corporation. CCLC Holdings LLC ("CCLH"), an affiliate, is the sole member of the Company. CLP Holdings Six LLC ("CLP6"), an affiliate, is the manager of the Company. The Company provides certain clearing and financing services to affiliated funds.

The Company's designated self-regulatory organization is FINRA. The Company is a clearing member of the Depository Trust Company and National Securities Clearing Corporation and is a participant in the Options Clearing Corporation stock loan program.

Citadel Enterprise Americas LLC (formerly known as Citadel LLC) ("CEAMER") and Citadel Americas LLC ("HFAMER"), both affiliates, provide administrative and investment-related services to the Company. Northern Trust Hedge Fund Services LLC ("NTHFS") is responsible for providing certain middle and back office administrative and operational services to the Company. The services contract between the Company and NTHFS is effective through June 30, 2020.

NOTE 2

Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in accordance with GAAP requires CLP6 to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ significantly from those estimates.

Cash

The Company defines cash on the statement of financial condition as liquid amounts on deposit. Cash is held at various global financial institutions.

Cash Segregated Under Federal Regulation

Restricted cash of \$28,000 and \$100 has been segregated in a special reserve bank account for the benefit of customers under the SEC Computation for Determination of Reserve Requirements ("Rule 15c3-3") and proprietary accounts of brokers and dealers, respectively.

Offsetting Financial Instruments

Financial assets and liabilities, as well as cash collateral received and posted, are offset by counterparty when there exists a legally enforceable right to set off the recognized amounts and when certain other criteria are met in accordance with applicable accounting guidance on offsetting. As a result, the net exposure to each counterparty is reported as either an asset or liability on the statement of financial condition, where applicable.

Transfers of Financial Assets

In general, transfers of financial assets are accounted for as sales when the Company has relinquished control over the transferred assets. For transfers of financial assets that are not accounted for as sales, in which the transferor retains control of the financial assets, the financial assets remain on the statement of financial condition and the transfer is accounted for as a collateralized financing. Securities borrowed, securities loaned, and securities sold under agreements to repurchase ("repurchase agreements") are treated as collateralized financings (see Note 5).

Repurchase agreements are short-term in nature and are recorded at the amounts of cash received, plus accrued interest, on the statement of financial condition.

Securities borrowing and lending transactions require cash or other financial instruments as collateral to be deposited or taken in. Securities borrowed are recorded at the amount of cash collateral advanced plus accrued interest receivable, as required. Securities loaned are recorded at the amount of cash collateral and fair value of securities collateral received plus accrued interest payable, as required.

Valuation of Financial Instruments

The Company measures and reports financial instruments held as collateral under securities loan agreements ("Financial Instruments") at fair value, as determined by CLP6. The fair value is based on available information and represents CLP6's best estimate of fair value. The fair value determined may not necessarily reflect the amount which might ultimately be realized in an arm's length liquidation of the Financial Instruments, if the counterparty to such Financial Instruments defaults and the Company were forced to liquidate the collateral associated with the Financial Instruments (see Note 5), and such differences may be material. Financial Instruments within each portfolio are valued as of the market close (as determined by CLP6). This valuation procedure is followed, irrespective of whether part or all of the Financial Instruments within a given portfolio continue to trade after the market close. Fair value shall be determined based on the valuations in effect as of the close of business on each date of determination, which valuations are next revised as of the close of business on the next business day. However, CLP6 may value (or revalue as the case may be) any and all Financial Instruments after the close of business if CLP6 believes that doing so is necessary to better reflect fair value, giving consideration to certain extraordinary events that CLP6 determines have or may have a material impact on the Company's net asset value, even though such event occurs after the close of business.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants, at the measurement date. Where available, fair value is based on observable market prices or inputs or derived from such prices or inputs. Where observable market prices or inputs are not available, other valuation techniques are applied. These valuation techniques involve some level of estimation and judgment by CLP6, the degree of which is dependent on the price transparency for the Financial Instruments or market and the Financial Instruments' complexity.

Notes to Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

The accounting guidance for fair value measurements and disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Basis of Fair Value Measurement

Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2	Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly; and
Level 3	Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A Financial Instrument's level within the fair value hierarchy is based on the lowest level of any input, individually or in the aggregate, that is significant to the fair value measurement.

Financial Instruments which are traded on one or more exchanges, organized dealer markets or electronic trading facilities are generally valued at their closing price on the exchange upon which they are principally traded. Such Financial Instruments are generally classified within level 1 of the fair value hierarchy. Valuation adjustments may be applied to the quoted market prices to the extent that exchange-traded Financial Instruments are infrequently traded though the Company did not apply any such adjustments as of December 31, 2018.

The following describes the valuation techniques applied to the Company's classes of assets and liabilities to measure fair value, including an indication of the level within the fair value hierarchy in which each asset and liability is generally classified.

COLLATERAL HELD UNDER SECURITIES LOAN AGREEMENTS

Collateral held under securities loan agreements may include exchange-traded equity securities and corporate debt securities. Exchange-traded equity securities are valued using exchange quoted market prices and are categorized within level 1 of the fair value hierarchy. The fair value of corporate debt securities is estimated using recently executed transactions, market price quotations (where observable), bond spreads or credit default swap spreads obtained from independent external parties such as vendors and brokers. Corporate debt securities are categorized within level 2 of the fair value hierarchy.

Other Financial Instruments

CLP6 estimates that the aggregate carrying value of other financial instruments (including receivables and payables) recognized on the statement of financial condition approximates fair value, as such financial instruments are short-term in nature, bear interest at current market rates or are subject to frequent repricing.

The financial assets and liabilities including securities borrowed, receivable from brokers, dealers, and clearing organizations, other assets, receivable from affiliated customers, securities sold under agreements to repurchase, payable to brokers, dealers and clearing organization, clearance and regulatory fees payable, other liabilities and payable to affiliates, are considered level 2. The financial assets of cash and cash segregated under federal regulation are considered level 1.

NOTE 3

New Accounting Pronouncement

Effective January 1, 2018, the Company adopted the new accounting standard for recognizing revenue from contracts with customers on a modified retrospective basis. The adoption did not have a material impact on the Company's financial condition or compliance with regulatory requirements. The Company's contracts with customers are with affiliated entities and the additional disclosures required by the updated guidance have been included in Note 7.

NOTE 4

Income Taxes

The Company is disregarded for U.S. federal income tax purposes and is not subject to U.S. federal or state income tax directly. In accordance with GAAP, CLP6 has reviewed the Company's tax positions for all open tax years. As of December 31, 2018, CLP6 determined that the Company was not required to establish a liability for uncertain tax positions.

NOTE 5

Collateralized Transactions

The Company engages in securities borrowing and lending transactions with Citadel Institutional Finance Company Ltd. ("CIFIC"), an affiliate, (see Note 7) and non-affiliates. The Company enters into repurchase agreements for financing purposes. The Company manages credit exposure arising from such transactions by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties. In the event of a counterparty default (such as bankruptcy or a counterparty's failure to pay or perform), these agreements provide the Company the right to terminate such agreement, net the Company's rights and obligations under such agreement, buy-in undelivered securities and liquidate and set off collateral against any net obligation remaining by the counterparty.

Securities borrowing and lending transactions are collateralized by pledging cash or securities, which typically include equity securities and/or corporate debt securities, and are collateralized as a percentage of the fair value of the securities borrowed or loaned. Repurchase agreements are collateralized primarily by pledging securities. Typically, the Company has rights of rehypothecation with respect to the underlying securities received under securities borrowed transactions. As of December 31, 2018, substantially all securities received under securities borrowed transactions have been delivered or repledged in connection with other collateralized financing agreements.

Notes to Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

The counterparty generally has rights of rehypothecation with respect to securities collateral pledged by the Company for securities borrowed by the Company. The counterparty generally has rights of rehypothecation with respect to the securities collateral received from the Company under repurchase agreements and the securities loaned from the Company to such counterparty. Also, the Company typically has rights of rehypothecation related to securities collateral received from counterparties for securities loaned to those counterparties. The fair value of securities collateral received from counterparties is recorded as collateral held for securities loan agreements on the statement of financial condition when the Company has such rights of rehypothecation. As of December 31, 2018, substantially all securities collateral received from counterparties for securities loaned has been delivered or repledged in connection with other collateralized financing agreements. The Company monitors the fair value of underlying securities in comparison to the related receivable or payable and as necessary, transfers or requests additional collateral as provided under the applicable agreement to ensure transactions are adequately collateralized.

The following table presents information about securities borrowed and securities loaned:

AS OF DECEMBER 31, 2018

	Securities Borrowed	Securities Loaned
Fair value of securities borrowed/loaned ⁽¹⁾	\$38,866,009	\$28,771,596
Cash collateral pledged/received	25,577,093	16,647,717
Fair values of securities collateral pledged/received ⁽¹⁾	13,670,989	13,670,839
Financing interest receivable/payable ⁽²⁾	36,805	10,463

⁽¹⁾ The fair values of these securities includes accrued coupon interest.

⁽²⁾ Included in securities borrowed and securities loaned, respectively, on the statement of financial condition.

As of December 31, 2018, the Company had repurchase agreements with collateral posted having a fair value of \$10,071,153. The fair value of the collateral posted includes accrued coupon interest. The Company also pledged cash collateral of \$15,175. The purchase obligations under repurchase agreements are collateralized by equity securities and corporate debt securities, to the extent offsetting agreements with the same counterparty have not otherwise reduced the Company's or counterparties' gross exposure.

Offsetting of Certain Collateralized Transactions

The following table presents information about the offsetting of these instruments.

ASSETS AS OF DECEMBER 31, 2018

	Securities Borrowed
Included in the statement of financial condition	
Gross amounts ⁽¹⁾	\$ 25,613,898
Amounts offset ⁽²⁾⁽³⁾	—
Net amounts⁽¹⁾	25,613,898
Amounts not offset	
Counterparty netting ⁽²⁾	(14,104,821)
Financial instruments, at fair value ⁽²⁾⁽⁴⁾	(11,314,546)
Net exposure	\$ 194,531

LIABILITIES AS OF DECEMBER 31, 2018

	Repurchase Agreements	Securities Loaned
Included in the statement of financial condition		
Gross amounts ⁽¹⁾	\$ 9,250,269	\$ 30,324,634
Amounts offset ⁽²⁾⁽³⁾	—	—
Net amounts⁽¹⁾	9,250,269	30,324,634
Amounts not offset		
Counterparty netting ⁽²⁾	—	(14,104,821)
Financial instruments, at fair value ⁽²⁾⁽⁴⁾⁽⁵⁾	(9,250,269)	(14,442,411)
Net exposure	\$ —	\$ 1,777,402

⁽¹⁾ Amounts include all instruments, irrespective of whether there is a legally enforceable master netting agreement or similar arrangement in place. The gross and net amounts in this table include financing interest receivables and payables related to these transactions.

⁽²⁾ Amounts relate to master netting agreements or similar arrangements which have been determined by the Company to be legally enforceable in the event of default.

⁽³⁾ Amounts are reported on a net basis in the statement of financial condition when subject to a legally enforceable master netting agreement or similar arrangement and when certain other criteria are met in accordance with applicable accounting guidance on offsetting.

⁽⁴⁾ Financial instruments not offset in the statement of financial condition include the fair value of securities borrowed or loaned, securities sold under the agreements to repurchase, accrued coupon interest and cash collateral, where applicable. These amounts are limited to the net amount by counterparty reported on the statement of financial condition. Note that the fair value of securities borrowed in the table only includes securities for which cash collateral was pledged.

⁽⁵⁾ Securities sold or otherwise pledged as collateral for repurchase agreements include securities received as collateral from affiliates under securities loan agreements.

Collateralized Transactions—Maturities and Collateral Pledged

The following table presents gross obligations for repurchase agreements and securities lending transactions by remaining contractual maturity as of December 31, 2018.

	Repurchase Agreements	Securities Loaned
Overnight and open	\$ 501,000	\$30,314,171
2-30 days	1,000,000	—
31-90 days	4,150,000	—
91-365 days	3,585,000	—
Total	9,236,000	30,314,171
Financing interest payable	14,269	10,463
Gross amount presented in the offsetting table above	\$ 9,250,269	\$30,324,634

The following table presents gross obligations for repurchase agreements and securities lending transactions by class of collateral pledged as of December 31, 2018.

	Repurchase Agreements	Securities Loaned
Equity securities	\$ 8,997,041	\$26,562,070
Corporate debt securities	238,959	3,752,101
Total	9,236,000	30,314,171
Financing interest payable	14,269	10,463
Gross amount presented in the offsetting table above	\$ 9,250,269	\$30,324,634

Notes to Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

NOTE 6

Fair Value Disclosures

The following fair value hierarchy tables present information about the Company's assets and liabilities measured at fair value on a recurring basis based upon the lowest level of significant input to the valuations (see Note 2 for the Company's policies regarding the hierarchy):

ASSETS AT FAIR VALUE AS OF DECEMBER 31, 2018

	Level 1	Level 2	Total
Collateral held under securities loan agreements	\$ 13,262,522	\$ 403,932	\$ 13,666,454

LIABILITIES AT FAIR VALUE AS OF DECEMBER 31, 2018

	Level 1	Level 2	Total
Securities loaned ⁽¹⁾	\$ 13,262,522	\$ 403,932	\$ 13,666,454

⁽¹⁾ The securities loaned balance reflects only that portion of the obligation to return securities collateral received.

There were no transfers of financial instruments in or out of level 3 during the year ended December 31, 2018.

NOTE 7

Transactions with Related Parties

Expenses

Pursuant to an administrative services agreement, the Company reimburses CEAMER, HFAMER, and their affiliates for direct and allocable administrative, general and operating expenses, including employee compensation and benefits, paid by these entities on behalf of the Company. As of December 31, 2018, the Company had a payable to CEAMER, HFAMER, and their affiliates of \$437 which is included in payable to affiliates on the statement of financial condition.

Securities Borrowed and Securities Loaned

During the year ended December 31, 2018, the Company engaged in securities borrowing and lending transactions with CIBC. The following table presents information about the fair value of the securities borrowed and loaned with CIBC with the related cash collateral and fair value of securities collateral pledged and received, respectively, as of December 31, 2018:

	Securities Borrowed	Securities Loaned
Fair value of securities borrowed ⁽¹⁾ /loaned ⁽²⁾	\$ 12,224,536	\$ 26,585,075
Cash collateral pledged/received	\$ 11,998,494	\$ 14,469,076
Fair values of securities collateral pledged/received ⁽³⁾	\$ —	\$ 13,670,839

⁽¹⁾ Includes accrued coupon interest of \$15,002.

⁽²⁾ Includes accrued coupon interest of \$49,425.

⁽³⁾ Includes accrued coupon interest of \$4,385.

Included in securities borrowed is \$9,620 of net financing interest receivable from CIBC.

Clearing Activities

For the year ended December 31, 2018, the Company conducted clearing activities with the following affiliated customers: Citadel Quantitative Strategies Master Fund Ltd. ("QSMF"), Citadel Multi-Strategy Equities Master Fund Ltd. ("CEMF"), Citadel Global Equities Master Fund Ltd. ("GEMF"), Citadel Equity Fund Ltd. ("CEFL"), Ashler Capital Master Fund Ltd. ("ASHR"), and CWSI II LLC. Clearance fees are recognized on a settlement date basis as transactions occur and are paid on settlement date. As of December 31, 2018, the Company did not have any transaction price allocated to unsatisfied or partially satisfied performance obligations.

The following table presents the net receivables from and payable to affiliated customers for clearing activities as of December 31, 2018.

Affiliate	Receivable from affiliated customers	Payable to affiliated customer ⁽¹⁾
QSMF	\$ 486	\$ —
CEMF	1,445	—
GEMF	31	—
CEFL	4,026	—
ASHR	—	3
Total	\$ 5,988	\$ 3

⁽¹⁾ Included in payable to affiliates on the statement of financial condition.

Miscellaneous Related Party Transactions

For the year ended December 31, 2018, the Company provided tri-party repurchase facilitation services to GEMF.

The Company participates in a variety of operating and administrative transactions with related parties and affiliates. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties and such differences could be material.

Notes to Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

NOTE 8

Receivable from and Payable to Brokers, Dealers, and Clearing Organizations

Amounts receivable from and payable to brokers, dealers, and clearing organizations at December 31, 2018, consist of the following:

	Receivables	Payables
Securities failed to deliver/receive	\$ 4,706	\$ 10,257
Receivables from clearing organizations	146,063	—
Receivable from broker and dealer	15,175	—
Net receivable/payable from/to brokers, dealers, and clearing organizations	\$ 165,944	\$ 10,257

At December 31, 2018, the entirety of receivables from clearing organizations reflect cash deposits held at the clearing organizations made in the normal course of business. Additionally, at December 31, 2018, the Company has pledged collateral in the form of securities to a custodian with a fair value of \$5,327 to fulfill the Company's collateral requirements.

NOTE 9

Risk Management

The Company is subject to various risks, including, but not limited to, market risk, credit risk, and other risks. CLP6 attempts to monitor and manage these risks on an ongoing basis.

Market Risk

Market risk is the potential for changes in the value of securities collateral pledged and/or received under stock borrowing, stock lending, and repurchase agreements. Categories of market risk include, but are not limited to, exposures to equity prices, interest rates, commodity prices, credit prices, and currency prices.

Market risk is directly impacted by the volatility and liquidity of the markets in which the underlying financial instruments are traded. CLP6 attempts to manage market risk in various ways, including through diversifying exposures and placing limitations on position sizes. The ability to manage market risk may be constrained by changes in liquidity conditions and fast changes in the relative prices or volatilities of Financial Instruments.

Credit Risk

Credit risk is the risk of losses due to the failure of a counterparty to perform according to the terms of a contract. Risks may arise associated with the Company's securities borrowing, securities lending, and securities sold under agreements to repurchase with counterparties as a result of non-performance by the counterparties. The Company attempts to manage this credit risk through collateral monitoring and by carrying minimal excess collateral above any specific collateral requirement determined in accordance with the contractual terms between the Company and relevant counterparties.

The Company is exposed to credit risk in its role as a financing counterparty to dealers and broker and dealer clients, as well as CIBC, as a holder of securities and as a member of clearing organizations. The Company's client activities involve the clearing and financing of various transactions. The Company seeks to reduce its exposure to credit risk associated with counterparty non-performance in its clearing and financing activities by entering into master netting agreements and collateral arrangements with counterparties. These master netting agreements provide the Company with the right on a daily basis to

demand collateral, as well as, in the event of counterparty default, the right to liquidate collateral and offset receivables and payables covered under the same master netting agreement. CLP6 monitors collateral fair value on a daily basis relative to the Company's counterparties' exposure, and when necessary, attempts to recall any material excess collateral balances. Additionally, the Company also seeks to manage credit risk by, among other factors, monitoring exposures to and reviewing creditworthiness of its counterparties, rebalancing financing sources, and attempting to match collateral types in a balanced book as deemed appropriate.

The cash balances held at various global financial institutions, which typically exceed government sponsored insurance coverages, subject the Company to a concentration of credit risk. CLP6 attempts, where possible, to mitigate the credit risk that exists with these account balances by, among other factors, maintaining these account balances pursuant to segregated custodial arrangements.

Other Risks

It is difficult to predict what other changes in the regulation of the Company, or the counterparties with which CLP6 does business on behalf of the Company may be instituted in the future, in addition to those changes already proposed or adopted in the United States, or other jurisdictions. These regulations could have a material adverse effect on the performance of the Company.

Contingencies

In the normal course of business, the Company enters into contracts that contain provisions related to general indemnifications. The Company's maximum exposure under these arrangements is unknown, as any such exposure involves possible future claims that may be, but have not yet been, made against the Company, based on events which have not yet occurred. However, based on experience, CLP6 believes the risk of material loss from these arrangements to be remote.

The Company provides guarantees to securities clearinghouses. Under the standard securities clearinghouse membership agreement, members are required to guarantee the performance of other members. Under these agreements, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet the resulting shortfalls. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, CLP6 believes the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is carried on the statement of financial condition for these arrangements.

NOTE 10

Regulatory Requirements

The Company is a registered broker and dealer subject to Rule 15c3-1 of the SEC, which specifies uniform minimum net capital requirements for its registrants. The Company has elected to use the alternative method as permitted by Rule 15c3-1. At December 31, 2018, net capital was \$504,019, which was in excess of the Company's required net capital by \$502,519. In addition, the Company is subject to minimum capital requirements of exchanges and clearing corporations in which it is a member, which may exceed the minimum net capital requirements of the SEC.

Notes to Statement of Financial Condition

(Expressed in U.S. dollars in thousands)

The Company is also subject to the requirements of Rule 15c3-3 of the SEC. At December 31, 2018, the Company was required to maintain a reserve balance of \$3,774 for the exclusive benefit of customers pursuant to Rule 15c3-3. The amount held on deposit in the reserve bank account was \$28,000. At December 31, 2018, the amount held on deposit in a reserve bank account for proprietary accounts of brokers and dealers was \$100.

As of December 31, 2018, the Company does not carry accounts that hold proprietary securities or cash on behalf of broker dealers with reportable amounts, as defined in Rule 15c3-3.

NOTE 11

Subsequent Events

The Company has performed an evaluation of subsequent events through February 26, 2019, which is the date the financial statements were available to be issued. The Company is not aware of any subsequent events that require disclosure in the financial statements.